CALIFORNIA
Economic Indicators

DEPARTMENT OF FINANCE · CALIFORNIA

November–December 2005

Housing Cooling Off

The California economy improved significantly during 2005, but home sales and construction slowed during the final months.

INSIDE

REVIEW OF RECENT ECONOMIC DEVELOPMENTS

California's economy *was* **much** improved in 2005. There were, though, signs of deceleration in housing markets towards the end of the year. Job growth improved markedly from 2004, even though the pace peaked at midyear. Home building was very strong during most of the year, but slowed noticeably during the final quarter. The pace of existing home sales also cooled during the last three months of the year.

Employment

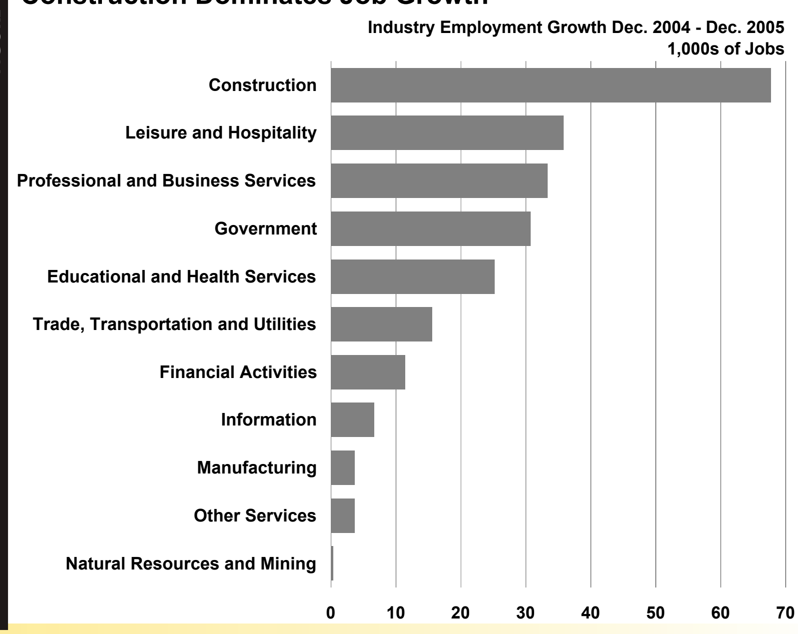
California gained 24,300 industry jobs in December and November's job gain, initially reported as 20,400, was revised upward to 32,500. With these two strong months, the state topped the nation in annual job growth—1.6 percent to 1.5 percent. The upward revision of 12,100 in November's job gain was more than entirely accounted for by an upward revision in Government employment of 13,700. The 12,200 decline in Government employment originally reported for November is now a gain of 1,500. The undercount was concentrated in local government education because school districts are chronically tardy in reporting their numbers.

Employment growth was broad-based. Nine of the 11 major industry sectors gained jobs in December. Construction led the way with a gain of 6,600 jobs, or 27 percent of total job growth. Professional and business services added 5,700 jobs, educational and health services, 3,200, financial activities, 2,400, manufacturing, 2,000, government, 1,800, information, 1,700, other services, 1,700, and natural resources and mining, 200. Two sectors lost jobs. Leisure and hospitality lost 600 jobs and trade, transportation, and utilities, 400.

All 11 of California's major industry sectors gained jobs over the 12 months ending in December 2005. Construction added 67,700, leisure and hospitality, 35,800, professional and business services, 33,300, government, 30,700, educational and health services, 25,200, trade, transportation, and utilities, 15,500, financial activities, 11,400, information 6,600, manufacturing 3,600, other services, 3,600 and natural resources and mining, 300. Adding them up, total nonfarm employment rose by 233,700 over the last 12 months.

FIGURE 1

Construction Dominates Job Growth



Unemployment rate improves during 2005

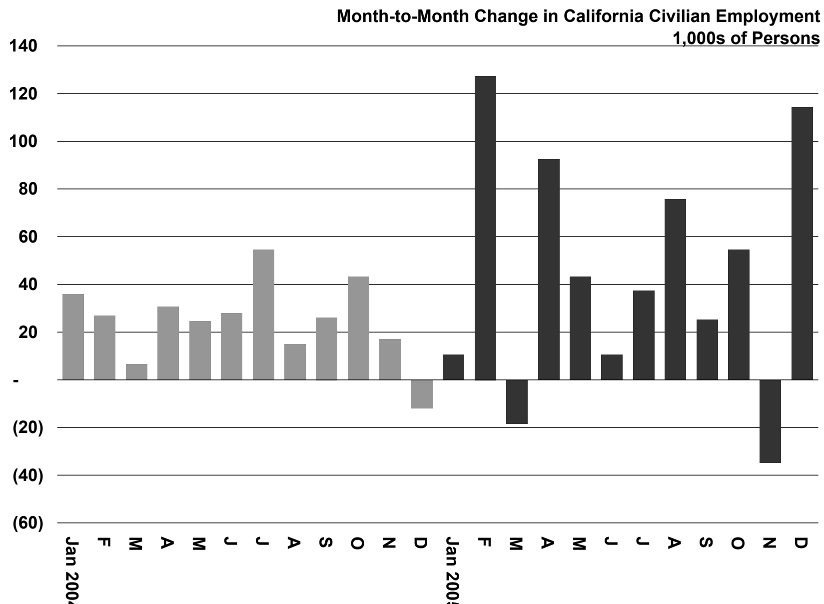
California's unemployment situation improved markedly over the course of 2005, even if the underlying details were unusually erratic. December's unemployment rate, 5.1 percent, was down from an upwardly revised 5.3 percent in November and 6.0 percent in December 2004. The national unemployment rate was 4.9 percent in December 2005. Civilian employment in California grew by an unlikely 115,000 in December while the number of unemployed Californians fell by 22,000. Many economists do not attach much significance to changes in civilian employment because the survey on which the monthly estimates are based is very small and, as a result, month-to-month changes can be volatile.

Another question arises from unusual trends in California's unemployment statistics. Civilian employment grew by 3.2 percent in the state over the last 12 months, but in the nation grew by only 1.9 percent. Civilian employment also widely outpaced the state's nonfarm payroll employment, which grew by 1.6 percent. There were several outsized monthly changes in civilian employment and unemployment during 2005. Employment made four unusually large upward lurches in 2005, including 127,400 in February, 92,500 in April, 75,600 in August, and 114,300 in December. The strongest one-month gain recorded from 2001 through 2004 was just 54,500. Large drops in civilian unemployment occurred in January (30,400), March (67,100), and July (48,200). The largest one-month decline from 2001 through 2004 was 21,400.

A significant part of the discrepancies noted above arises from unemployment estimates for Los Angeles County (Los Angeles-Long Beach-Glendale Metropolitan Division). California's unemployment statistics are derived from two separate estimates, one for Los Angeles and one for the rest of the state. Unemployment estimates for Los Angeles experienced several dramatic month-to-month swings in 2005. Total unemployment dropped 8.6 percent in March, 13 percent in August, and 9.4 percent in September. Then it increased 12.1 percent in November. Thus, civilian unemployment in Los Angeles dropped over 13 percent during the 12 months ending in December 2005. In nearby Orange, Riverside, and San Bernardino counties, unemployment dropped only 11 percent over the same period and did not display the same dramatic volatility. While some variation is normal, it is unlikely that employment conditions would be that much different between adjacent and economically integrated regions.

FIGURE 2

Erratic Civilian Employment Gains



Building Activity

Home building slowed at year end

New energy-efficiency building standards, imposed by the California Energy Commission, effective October 1, somewhat clouded home building conditions at year-end. Home construction permitting accelerated in September in anticipation of the new requirements. This was paid back in October when permits fell dramatically—down nearly 43 percent from September. With November and December now on the books, it is clear that home building was moderating at the end of 2005. Permitting recovered somewhat in November, but was still down 20 percent from a year earlier. But, activity slowed again in December—down 30 percent from a year earlier. Permitting activity during the last four months of the year (including the September surge) was nearly 10 percent slower than during the same months of 2004. For the year as a whole, the number of residential units permitted was down 2.7 percent.

Commercial construction strong at year end

In contrast, commercial construction grew steadily throughout 2005. The value of nonresidential building permits issued during the final three months of 2005 was up almost 27 percent from the same months a year ago. For 2005 as a whole, nonresidential construction increased 16.4 percent from 2004. The strongest gains were made in office, store, and industrial construction.

Real Estate

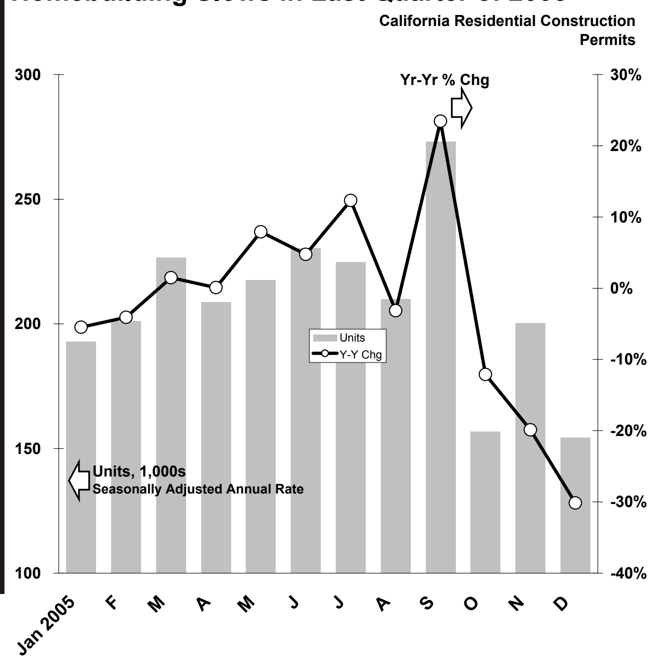
Home sales and prices slow at year end

California home prices held steady in December. The median price of existing single-family homes sold in December was $548,430, just a few dollars more than the November median. While this was 15.6 percent higher than the median a year earlier, it is still right in line with the prices recorded since June of 2005 and further evidence that California home prices may have stabilized.

December was the third consecutive month that the pace of home sales slowed both on a month-to-month and a year-over-year basis. Sales of existing, single-family homes fell over 8 percent in December to a seasonally adjusted annual rate of 531,900 units. This also represents a 17.6-percent drop from December 2004. Overall, during the final quarter of 2005, the pace of home sales slowed 10.6 percent from the same months a year earlier.

FIGURE 3

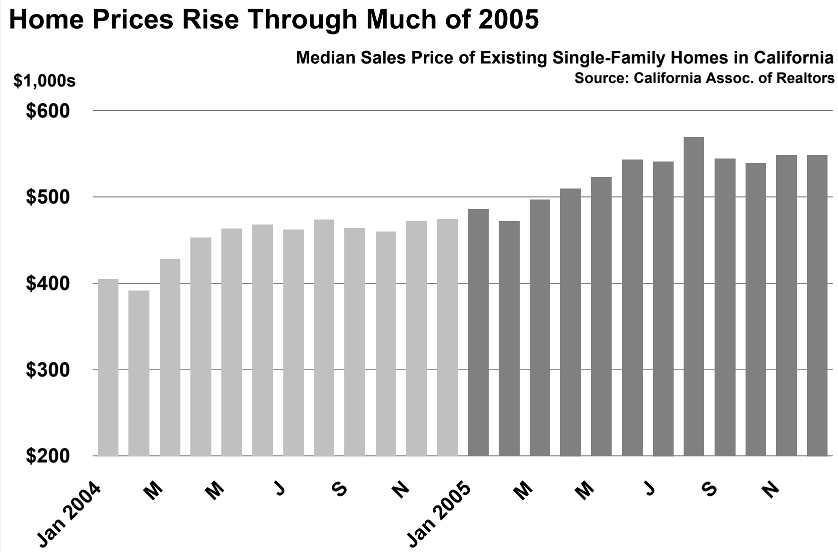
Homebuilding Slows in Last Quarter of 2005



REVISITING CALIFORNIA HOME PRICES

The prospect of a severe real estate market correction in California, as well as other areas of the nation, has been a source of concern among economists for some time. One year ago, we assessed the risk of a sudden collapse of home prices in California. At that time home prices were quickly outdistancing incomes, affordability was falling, and home prices seemed unsustainable. However, based on the record of previous episodes of skyrocketing prices, we concluded that the risk of a sharp drop in home prices was remote. Despite record high prices, low mortgage rates were keeping monthly payments low enough that the payment-to-income ratio was not as high as it had been at times in the past. The only severe price correction on record was triggered by the harsh economic downturn and economic restructuring of the early 1990s. Thus, absent a recession, the most likely outcome of the latest run-up would be a period of relative price stagnation rather than a significant loss of value.

FIGURE 4



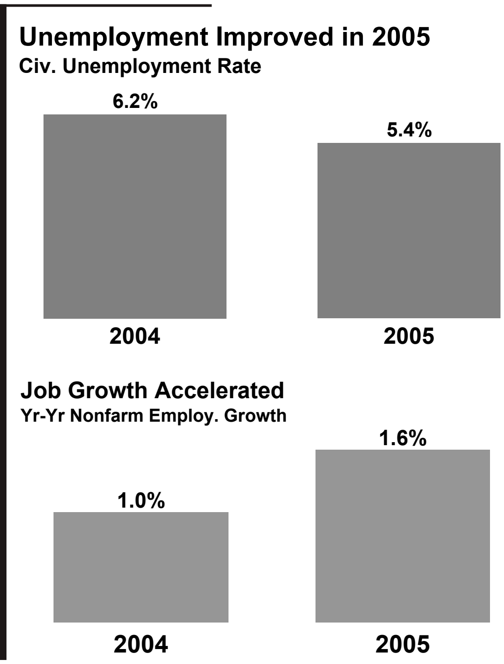
Home Prices in 2005

What has transpired in the past year? Home prices did not collapse. They actually continued to rise throughout much of the year, albeit at a slower pace than in 2004. California's median single-family home price rose at a healthy clip during the first half of 2005 and then leveled off. The average month-to-month increase from January through June was 2.3 percent. The average for July through December was only 0.2 percent. This is very similar to the 2005 pattern.

Some of the fuel for rising prices came from strong income growth in California. Personal income received during the first three quarters of 2005 averaged 6.2 percent above that received in the same quarters of 2004. This is slightly faster growth than occurred during the first three quarters of 2004.

Labor market improvements in 2005 contributed to better income as well as to rising home prices. Industry job growth accelerated and the unemployment rate declined. Total nonfarm employment expanded by 1.6 percent in 2005 on a year-over-year basis, much faster than the 1.0-percent expansion during 2004. Similarly, civilian employment growth accelerated from 1.5 percent in 2004 to 2.5 percent in 2005. Consequently, California's unemployment rate declined steadily throughout much of the year, falling from 6.0 percent at the end of 2004 to 5.1 percent in December 2005. A solid employment outlook is typically a strong positive for housing demand.

FIGURE 5



Mortgage interest rates provided little downward pressure on home prices. While conventional 30-year rates were turning up near the end of 2005, they were, for the year as a whole, only slightly higher than during 2004. In fact, during five months of the year, mortgage rates were lower than during the corresponding months of 2004. The average rate during 2005 was 5.87 percent compared to 5.84 percent during 2004.

Home affordability continued to deteriorate in 2005. Rising prices, coupled with stable interest rates, led to a steady decline in the percentage of California households able to afford a median-priced home, according to the California Association of Realtors. During the first half of the year, rising prices drove the affordability rate down and the upward drift in mortgage rates was responsible for further declines in the final months of the year. The affordability rate declined from 19 percent at the end of 2004 to 14 percent in December 2005.

Have Home Prices Peaked?

2005 began and ended with warnings that home prices were going to crash at any time. Each rise in the median price was usually attributed to a last rush of buyers trying to head off rising interest rates. The demand for homes, though, was fairly resilient. Existing home sales started out the year at a record pace—659,000 units at a seasonally adjusted annualized pace—and for most of the year, fluctuated within a fairly narrow range. It wasn't until November that the demand for existing homes slowed appreciably, falling below 600,000 units for the first time since August 2004.

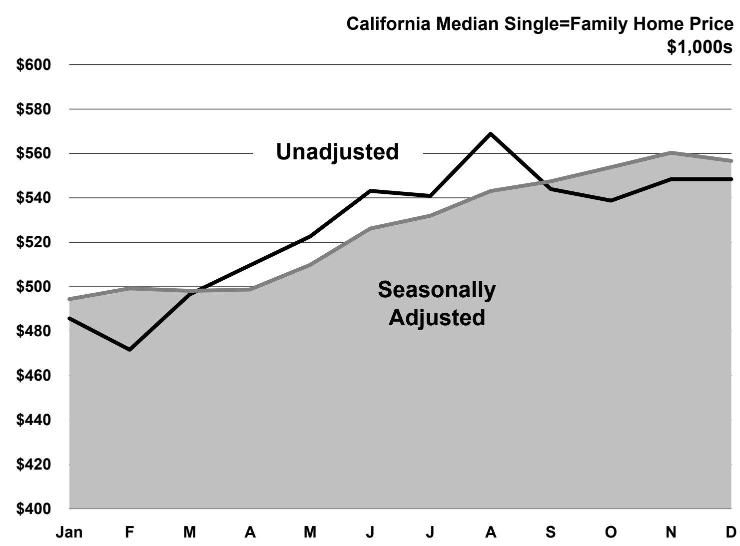
California's median home price appeared to level off in the middle of 2005, but this should not be taken as a conclusive sign of an imminent fall in home prices. Home prices appear to follow seasonal patterns. This is evident in the median home price data produced by the California Association of Realtors. Price gains are strongest during the first half of the year and then typically weaken dramatically during the second half—most likely due to the preference of home buyers to move between school years and to avoid moving during the winter holiday season. On average, the state's median home price has risen 3.5 percent on a quarter-to-quarter basis during the first half of each year, but rose only 0.1 percent during the last half. When home prices are adjusted to take these seasonal factors into account, it appears that the state's median price rose very steadily throughout the year. The average month-to-month increase in the seasonally adjusted statewide median home price was 1.2 percent during the last three months of the year, the same rate sustained during the first three months of the year.

The cataclysmic collapse of over-exuberant equity markets in 2001 is a specter underlying the current fears about real estate markets. The market for homes, though, is different. Stock certificates have no intrinsic value. They are merely investment instruments whose value is principally tied to their current and prospective market prices. Homes, on the other hand, serve a vital function for most owners in addition to the ability to accumulate wealth. Price movements are only one of many factors that drive people to buy a house or attempt to sell one. As a result, an overheated real estate market can bring itself back to earth without necessarily triggering a dramatic fall in prices.

Other real estate market measures, such as time-on-market and inventories, depict a housing market that is indeed cooling off. The median number of days it took to sell an existing single-family home rose to 33 in 2005, a significant increase from the 27-day average for 2004, according to the California Association of Realtors. The Association's Unsold Inventory Index for existing, single-family detached homes rose even more dramatically. The index—the number of months needed to deplete the supply of homes on the market at the current sales rate—averaged 3.3 months in 2005, a 48 percent increase from 2004. Clearly, a shift from a seller's to a buyer's market was underway in 2005.

FIGURE 6

Seasonality Affects Home Prices



Price stability is likely because the supply of homes offered for sale is elastic. Homeowners are rarely compelled to sell at a particular time regardless of market conditions. Thus the number of homes offered for sale can fluctuate quickly in response to changing market conditions. When selling conditions deteriorate, homeowners are less likely to place their homes on the market, which counterbalances falling demand and mitigates or prevents a dramatic drop in home prices.

In contrast to typical homeowners, real estate investors purchase or build home strictly for financial gain. A deteriorating market prompts them to put more homes up for sale in order to realize profits and head off potential losses. There is evidence that investors financed an above-average share of recent home building. It was feared that as soon as prices stabilized, the lack of prospective gains would lead them to flood the market with homes and trigger a home price collapse. While it may still be too early to gauge the importance of this factor, anecdotal evidence suggests that it may already have run its course.

New home construction may actually be the principal victim of weaker housing markets today. Similar to investors, home builders create new homes in search of profits. If price gains slow, builders can easily slow the pace of construction and thus put some support under prices. Part of the explanation for the falling home prices in the 1990-93 recession was that it was preceded by several years of unprecedented homebuilding. New housing starts in California averaged over 255 thousand units per year from 1984 through 1989. This construction boom left behind a serious excess supply of homes when the recession hit in 1990.

The financial losses suffered by homebuilders at that time, however, led to more caution and to new strategies to avoid that risk in the future. Homebuilders shifted to building tracts in smaller phases. Building "on spec" is less common now as builders are more apt to require better up-front financial assurances from buyers—larger deposits and pre-approved loans—before beginning construction. This caution was part of the reason that homebuilding was much less robust during the current expansion. New housing starts averaged only 115 thousand units per year during the boom years from 1994 through 2000. While this helped drive up home prices, it also reduced the likelihood that there would be a repetition of the early 1990s.

Accordingly, the clearest sign of a cooling housing market may be slowing new construction. Even though home building improved during 2005 overall, there were signs of moderation at year's end. Home construction permitting surged in September 2005 in response to the imposition of new building standards. This was followed by a slowdown in October, some recovery in November, but another slowdown in December. Despite this noise, the pace of residential permitting during the last four months of 2005 was off nearly 10 percent from the same months of 2004, and 8 percent below the pace set during the first eight months of 2005. Weaker building should help maintain prices by slowing the pace of homes coming on the market.

Vulnerabilities

The economic consequences of a sharp drop in home values are the mirror image of the benefits of rising prices. Healthy employment growth and vibrant consumer spending have been the principal indirect economic benefits of rising home prices. For both California and the nation, the housing boom cushioned the blow of the 'dot.com' stock market collapse and the ensuing 2001 recession. Rising home values coupled with historically low mortgage interest rates allowed many homeowners to capitalize on favorable refinancing opportunities that left them with cash to spend. Thus, weaker construction-related job growth and softer consumer spending are the most likely risks posed by a drop in home values, or even a check on rising prices.

Various industries are particularly sensitive to trends in real estate and home construction. The growth of the construction, home and garden retailing, and mortgage financing sectors significantly outpaced that of others since the beginning of the 2001. Cumulatively, these three sectors accounted for nearly half of California's new jobs in 2004 and nearly a third in 2005. Foremost, construction employment is very directly tied to the level of building activity, residential as well as non-residential. Since 2003, construction has been responsible for a disproportionately large share of California's employment growth. In 2003, while the state as a whole lost jobs, construction employment rose nearly 3 percent, one of only four major sectors to do so. In 2004, when overall employment expanded only 1.0 percent, construction employment rose 6.5 percent, accounting for over 35 percent of all new jobs in California. It was similar story in 2005, with construction employment growing by 6.8 percent and accounting for nearly 25 percent of all new jobs. Financial services are also reliant on housing activity. Credit intermediation employment growth bested overall employment gains every year since 2001. Despite representing only 2 percent of total employment, credit industries accounted for nearly 8 percent of California job growth in 2004 and 5 percent in 2005. Retail industries are also affected by home buying. Employment growth in building material and garden equipment stores significantly outpaced overall job growth since 1999. Home and garden retailing accounted for 4.5 percent of the jobs created in 2004 and 1.8 percent in 2005, despite representing less than 1 percent of total employment.

The loss of job growth from these sectors would be a severe blow to the state. Employment growth outside of these sectors was only 1.2 percent in 2005, much slower than the 1.6-percent total gain. Which of these housing-driven sectors is the most sensitive? Construction is the largest, nearly twice the number of jobs of the other two combined. It is also subject to the broadest swings in activity. Its best year since 1990 was 1999 when employment grew 11.2 percent. Its worst was 1991 when it contracted 12.8 percent. Credit Intermediation follows construction both in size and volatility. Employment here is about one-third that of construction. Annual growth since 1990 was as high as 10.7 percent (1999) and as low as a loss of 7.9 percent (1995). Building material retailing is much smaller and more stable. Annual growth topped out at 6.7 percent (1999) and bottomed out at negative 4.3 percent. Thus, the largest two of these three sectors are the ones that would be most dramatically affected if home prices stagnate (or retreat) enough to dramatically slow down home building.

Economic Risks

2005 ended without the severe home price correction that was feared at the close of 2004. There are definite signs, though, within California and nationally, that housing markets are cooling. History indicates that a significant collapse in home prices is unlikely without a full-blown economic recession. Does the prospect of mere price stability pose a significant risk? Employment gains from housing-related sectors were responsible for a significant share of California job growth in recent years. Stabilized home prices pose a risk to the California economy only if the direct employment slowdown, principally in construction and finance, broadens into other industries. California labor market indicators will be watched closely for these developments.

Select Indicators

	2004	2005				Year-Over
	Dec	Sep	Oct	Nov	Dec	% Change
EMPLOYMENT (Seasonally adjusted)						
Civilian employment (000)	16,580	16,983	17,038	17,003	17,118	3.2%
Unemployment (000)	1,051	921	936	943	921	-12.4%
Unemployment rate	6.0	5.1	5.2	5.3	5.1	--
Nonagricultural wage and salary employment (000) a/	14,645.5	14,814.8	14,822.4	14,854.9	14,879.2	1.6%
Goods-producing industries	2,428.6	2,477.3	2,483.6	2,491.4	2,500.2	2.9%
Natural resources and mining	23.2	23.0	23.2	23.3	23.5	1.3%
Construction	870.3	919.1	923.7	931.4	938.0	7.8%
Manufacturing	1,535.1	1,535.2	1,536.7	1,536.7	1,538.7	0.2%
Service-providing industries	12,216.9	12,337.5	12,338.8	12,363.5	12,379.0	1.3%
Trade, transportation, and utilities	2,778.9	2,783.1	2,787.3	2,794.8	2,794.4	0.6%
Information	479.1	480.3	477.6	484.0	485.7	1.4%
Financial activities	916.4	923.0	924.3	925.4	927.8	1.2%
Professional and business services	2,130.4	2,157.6	2,152.7	2,158.0	2,163.7	1.6%
Educational and health services	1,571.1	1,589.3	1,592.6	1,593.1	1,596.3	1.6%
Leisure and hospitality	1,454.0	1,479.6	1,488.2	1,490.4	1,489.8	2.5%
Other services	506.2	509.6	507.9	508.1	509.8	0.7%
Government	2,380.8	2,415.0	2,408.2	2,409.7	2,411.5	1.3%
High-technology industries b/	*872.5*	*872.7*	*873.3*	*874.9*	*876.4*	*0.4%*
Computer and electronic products manufacturing	*324.7*	*328.1*	*327.4*	*328.0*	*328.6*	*1.2%*
Aerospace products and parts manufacturing	*75.2*	*76.9*	*76.9*	*76.4*	*77.0*	*2.4%*
Software publishers	*42.6*	*41.2*	*41.0*	*41.0*	*41.0*	*-3.8%*
Telecommunications	*118.9*	*114.4*	*113.9*	*114.4*	*114.0*	*-4.1%*
Internet service providers	*48.0*	*49.4*	*49.3*	*49.2*	*49.1*	*2.3%*
Computer systems design	*168.8*	*168.7*	*170.3*	*171.1*	*171.6*	*1.7%*
Scientific research and development	*94.3*	*94.0*	*94.5*	*94.8*	*95.1*	*0.8%*
HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)						
Average weekly hours	40.3	40.3	40.6	40.0	39.9	*-1.0%*
Average weekly earnings	$628.68	$633.52	$639.86	$629.20	$634.01	*0.8%*
Average hourly earnings	$15.60	$15.72	$15.76	$15.73	$15.89	*1.9%*
CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)						
All Urban Consumers Series						
California Average	197.0	n.a.	207.1	n.a.	204.2	*3.7%*
San Francisco CMSA	199.5	n.a.	205.9	n.a.	203.4	*2.0%*
Los Angeles CMSA	195.2	205.8	206.9	205.6	203.9	*4.5%*
Urban Wage Earners and Clerical Workers Series						
California Average	190.5	n.a.	200.5	n.a.	197.1	*3.5%*
San Francisco CMSA	195.9	n.a.	202.6	n.a.	199.3	*1.7%*
Los Angeles CMSA	188.5	199.0	200.0	198.4	196.5	*4.2%*
CONSTRUCTION						
Private residential housing units authorized (000) c/	221	273	157	200	154	*-30.2%*
Single units	146	196	127	144	123	*-15.7%*
Multiple units	75	77	30	57	31	*-58.1%*
Residential building authorized valuation (millions) d/	44,722	$60,830	$35,694	$46,815	$38,543	*-13.8%*
Nonresidential building authorized valuation (millions) d/	16,004	$18,444	$17,418	$23,907	$18,401	*15.0%*
Nonresidential building authorized valuation (millions) e/	1,285	1,615	1,546	1,723	1,481	*15.3%*
Commercial	486	546	505	573	490	*0.8%*
Industrial	116	91	155	144	109	*-6.0%*
Other	225	355	295	433	332	*47.6%*
Alterations and additions	458	623	590	574	550	*20.3%*

	2004	2005				Year-Over
	Sep	Jun	Jul	Aug	Sep	% Change
AUTO SALES (Seasonally adjusted)						
New auto registrations (number)	151,309	150,806	139,959	172,212	163,455	*8.0%*

a/ The wage and salary employment information is based on the new North American Industry Classification System (NAICS).
b/ Not seasonally adjusted
c/ Seasonally adjusted at annual rate
d/ Seasonally adjusted
e/ Not seasonally adjusted
n.a. Not available

VACANCY RATES FOR FOURTH QUARTER 2005
(Percent)

	Office Downtown		Office Suburban		Office Metropolitan		Industrial	
	4Q05	4Q04	4Q05	4Q04	4Q05	4Q04	4Q05	4Q04
Northern and Central California:								
Oakland	13.7	14.9	13.6	16.7	13.6	16.3	n.a.	n.a.
Sacramento	12.9	13.8	12.7	14.0	12.7	13.9	11.9	15.9
San Francisco	12.0	15.2	17.3	23.0	17.3	17.6	12.1	13.8
San Jose	23.2	18.4	13.9	18.3	13.9	18.4	n.a.	n.a.
Southern California:								
Los Angeles Metro	14.6	16.7	10.5	12.7	11.1	13.4	7.1	8.1
Orange County	n.a.	n.a.	6.1	10.4	6.1	10.4	8.0	8.7
San Diego	10.1	9.5	8.6	9.9	8.6	9.8	9.1	11.1
Ventura County	n.a.	n.a.	8.7	9.0	8.7	9.0	n.a.	n.a.
National Average	12.7	14.2	14.6	17.1	13.9	16.0	9.7	11.0

SALES OF EXISTING SINGLE-FAMILY HOMES / **FOREIGN TRADE THROUGH CALIFORNIA PORTS**

		Median Price	Units (SAAR)	Exports ($ millions)	Imports ($ millions)
2002	Jan	$287,076	584,251	$8,688	$15,517
	Feb	294,865	610,379	8,429	15,768
	Mar	305,838	586,225	9,945	16,318
	Apr	317,121	643,026	9,274	17,807
	May	319,591	620,301	9,814	17,568
	Jun	324,638	533,840	9,984	18,988
	Jul	321,903	540,797	9,335	18,998
	Aug	334,273	562,783	9,948	19,686
	Sep	322,452	493,803	9,286	19,478
	Oct	324,672	579,240	8,794	18,753
	Nov	328,440	542,121	9,046	20,522
	Dec	338,836	573,786	8,797	19,060
2003	Jan	$336,212	584,600	$8,408	$17,588
	Feb	326,645	566,890	8,423	16,359
	Mar	351,134	567,609	9,784	18,789
	Apr	364,040	583,333	9,158	19,151
	May	367,627	572,265	9,090	18,537
	Jun	374,535	572,128	9,743	19,774
	Jul	381,938	595,858	9,604	20,743
	Aug	406,142	645,721	9,626	19,846
	Sep	384,686	631,881	8,968	21,060
	Oct	379,119	636,688	10,341	23,021
	Nov	384,472	627,190	9,969	21,320
	Dec	401,724	637,078	10,437	20,528
2004	Jan	$404,463	615,659	$9,062	$19,996
	Feb	391,550	589,220	9,536	18,011
	Mar	428,060	590,220	11,420	22,589
	Apr	452,680	640,710	10,249	21,722
	May	463,320	632,380	10,460	21,760
	Jun	468,050	633,660	10,481	23,971
	Jul	462,145	639,910	10,388	24,162
	Aug	473,520	591,150	10,118	24,127
	Sep	463,630	626,210	10,446	23,974
	Oct	459,530	639,571	10,460	25,279
	Nov	471,980	652,340	9,792	25,769
	Dec	474,270	645,860	10,628	22,863
2005	Jan	$485,700	659,406	$9,405	$22,776
	Feb	471,620	608,170	9,756	21,738
	Mar	496,550	634,700	11,390	23,735
	Apr	509,630	658,060	10,356	24,337
	May	522,590	618,920	10,882	24,774
	Jun	543,120	656,310	11,108	26,153
	Jul	540,900	647,910	10,828	26,452
	Aug	568,890	632,240	11,166	26,452
	Sep	543,980	650,780	10,825	28,012
	Oct	538,770	621,530	11,371	28,847
	Nov	548,680	579,560	11,194	27,030
	Dec	548,430	531,910	n.a.	n.a.

DOD PRIME CONTRACTS a/

	$ millions	% of U.S.
1993-94	22,573	20.5%
1994-95	18,277	16.8%
1995-96	18,230	16.7%
1996-97	18,477	17.3%
1997-98	17,401	15.9%
1998-99	17,372	15.1%
1999-00	18,100	14.7%
2000-01	19,939	14.7%
2001-02	23,816	15.0%
2002-03	28,681	15.0%
2003-04	27,875	13.7%

a/ U.S. fiscal year: October through September

n.a. Not available

Leading Indicators/[a]

		Manufacturing		Unemployment	New	Housing Unit
		Overtime Hours	Average Weekly Hours	Insurance Initial Claims	Business Incorporations	Authorizations (Thousands)
2001	Jan	4.1	39.9	47,433	7,556	205.3
	Feb	4.2	40.2	51,754	6,436	136.7
	Mar	4.0	39.9	53,976	6,574	143.7
	Apr	3.5	39.5	52,045	6,239	153.3
	May	3.8	39.6	56,344	6,757	152.1
	Jun	3.8	39.3	54,585	6,425	147.4
	Jul	3.7	39.5	55,086	6,532	129.3
	Aug	3.9	39.6	57,220	7,243	162.6
	Sep	3.9	39.7	59,321	5,893	113.5
	Oct	3.8	39.4	62,955	7,002	141.2
	Nov	3.6	39.0	58,250	7,315	139.3
	Dec	3.7	39.4	49,212	6,912	161.4
2002	Jan	3.8	39.0	67,463	7,283	160.6
	Feb	3.9	39.4	56,462	6,867	163.3
	Mar	4.1	39.9	61,127	7,381	143.1
	Apr	4.1	39.9	62,452	7,348	163.4
	May	4.1	39.6	61,029	8,597	157.0
	Jun	4.1	39.9	58,896	6,988	149.1
	Jul	3.9	39.3	61,909	7,252	179.3
	Aug	4.0	39.8	61,152	7,552	169.3
	Sep	3.9	39.9	60,528	7,285	182.1
	Oct	3.9	39.6	61,567	8,053	206.0
	Nov	3.8	39.6	59,053	7,545	187.2
	Dec	3.9	39.8	60,417	7,736	150.2
2003	Jan	3.9	39.6	61,430	7,430	198.2
	Feb	4.0	39.8	59,637	8,677	253.2
	Mar	3.7	39.7	59,723	7,242	180.1
	Apr	3.7	39.7	63,614	7,875	189.7
	May	3.7	39.8	61,106	7,864	210.0
	Jun	3.7	39.9	60,771	7,873	175.8
	Jul	3.8	39.5	60,213	8,026	196.8
	Aug	3.8	39.5	57,664	7,045	183.3
	Sep	3.9	39.5	57,320	8,267	189.4
	Oct	3.9	39.6	58,650	7,952	213.2
	Nov	4.0	40.1	54,900	7,474	185.4
	Dec	3.9	39.6	52,281	8,424	192.2
2004	Jan	4.1	40.0	51,052	8,086	204.0
	Feb	4.1	40.2	51,195	8,715	209.6
	Mar	4.2	40.2	49,142	8,573	223.2
	Apr	4.4	40.0	49,413	8,428	208.6
	May	4.5	40.3	46,621	8,291	201.5
	Jun	4.2	39.9	49,874	8,905	219.9
	Jul	4.4	40.2	48,251	8,376	200.1
	Aug	4.2	40.1	47,573	8,310	216.8
	Sep	4.0	39.3	46,799	8,571	221.2
	Oct	4.3	39.8	44,947	7,704	178.4
	Nov	4.4	39.8	47,368	8,979	250.0
	Dec	4.4	39.8	49,438	9,263	221.1
2005	Jan	4.3	40.3	50,966	5,869	192.8
	Feb	4.4	40.0	46,024	9,147	201.0
	Mar	4.3	40.0	45,384	9,489	226.5
	Apr	4.4	40.1	44,498	9,451	208.8
	May	4.4	39.9	43,494	9,811	217.5
	Jun	4.3	39.6	42,711	9,419	230.3
	Jul	4.4	39.9	40,706	8,778	224.8
	Aug	4.6	39.9	40,975	9,226	209.9
	Sep	4.5	40.0	40,597	8,934	273.1
	Oct	4.6	40.5	37,628	n.a.	156.8
	Nov	4.3	39.6	39,949	n.a.	200.3
	Dec	4.1	39.4	42,641	n.a.	154.4

Coincident Indicators/[a]

		Nonagricultural Employment (Thousands)	Manufacturing Employment (Thousands)	Unemployment Rate (Percent)	Unemployment Avg. Weeks Claimed (Thousands)
2002	Jan	14,440	1,674	6.5	518
	Feb	14,449	1,666	6.6	544
	Mar	14,472	1,662	6.7	534
	Apr	14,460	1,656	6.7	538
	May	14,474	1,652	6.7	555
	Jun	14,459	1,646	6.8	540
	Jul	14,434	1,637	6.7	547
	Aug	14,455	1,629	6.7	525
	Sep	14,448	1,622	6.7	531
	Oct	14,468	1,615	6.7	538
	Nov	14,484	1,606	6.8	508
	Dec	14,455	1,595	6.8	511
2003	Jan	14,440	1,585	6.9	520
	Feb	14,422	1,575	6.8	522
	Mar	14,393	1,565	6.8	521
	Apr	14,389	1,559	6.9	567
	May	14,381	1,550	6.9	543
	Jun	14,371	1,544	6.9	550
	Jul	14,363	1,537	6.9	552
	Aug	14,379	1,536	6.9	528
	Sep	14,369	1,535	6.8	525
	Oct	14,414	1,531	6.8	517
	Nov	14,396	1,529	6.7	509
	Dec	14,393	1,529	6.7	503
2004	Jan	14,430	1,532	6.5	457
	Feb	14,447	1,530	6.4	453
	Mar	14,455	1,528	6.4	444
	Apr	14,476	1,530	6.4	438
	May	14,484	1,530	6.3	416
	Jun	14,479	1,527	6.3	449
	Jul	14,594	1,547	6.2	404
	Aug	14,586	1,539	6.1	420
	Sep	14,581	1,531	6.1	416
	Oct	14,634	1,535	6.0	390
	Nov	14,656	1,534	6.0	402
	Dec	14,646	1,535	6.0	398
2005	Jan	14,654	1,538	5.8	406
	Feb	14,682	1,536	5.8	395
	Mar	14,703	1,533	5.4	388
	Apr	14,721	1,533	5.4	368
	May	14,737	1,533	5.3	362
	Jun	14,754	1,534	5.4	386
	Jul	14,792	1,540	5.2	349
	Aug	14,831	1,536	5.2	366
	Sep	14,815	1,535	5.1	332
	Oct	14,822	1,537	5.2	334
	Nov	14,855	1,537	5.3	340
	Dec	14,879	1,539	5.1	317

		Personal Income ($ millions)	Total Wages & Salaries ($ millions)	Taxable Sales ($ millions)
2001	Qtr I	$1,142,025	$652,950	$111,989
	Qtr II	1,134,846	647,680	111,275
	Qtr III	1,132,057	641,413	108,517
	Qtr IV	1,132,288	640,383	109,442
2002	Qtr I	$1,141,567	$642,169	$108,528
	Qtr II	1,149,063	642,226	109,986
	Qtr III	1,147,230	639,685	111,384
	Qtr IV	1,153,614	643,855	110,449
2003	Qtr I	$1,159,936	$646,156	$112,286
	Qtr II	1,176,555	655,812	113,415
	Qtr III	1,190,678	664,883	117,636
	Qtr IV	1,209,063	671,187	116,023
2004	Qtr I	$1,229,352	$682,144	$122,428
	Qtr II	1,248,192	690,250	123,851
	Qtr III	1,262,883	700,403	125,590
	Qtr IV	1,309,389	723,340	124,188
2005	Qtr I	$1,311,164	$730,155	n.a.
	Qtr II	1,331,118	741,054	n.a.

a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Department.
n.a. Not available

ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-12 Arima program. Persons interested in a detailed description of this method are referred to the U.S. Census Bureau's Statistical Research Division.

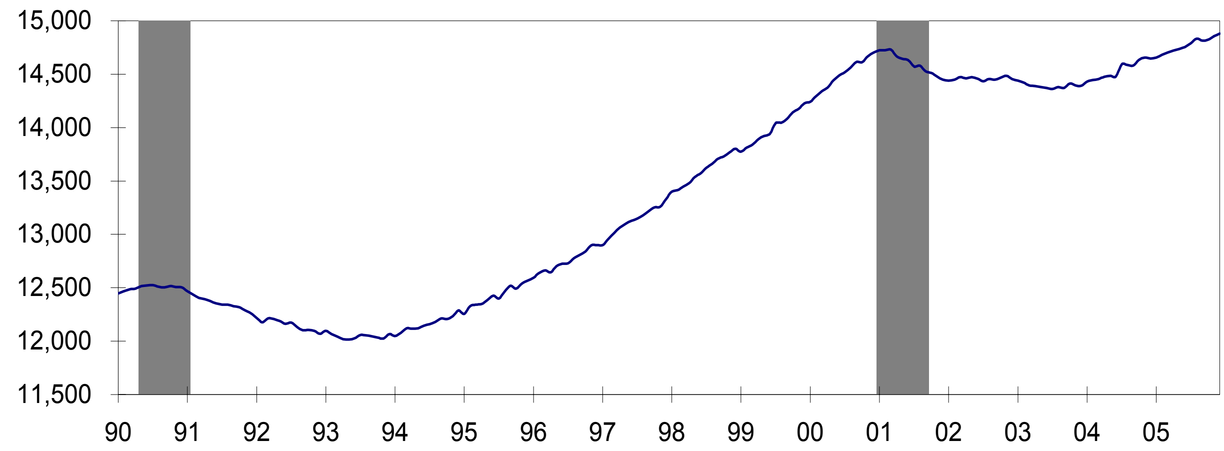
Under the X-12 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

This series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950. The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

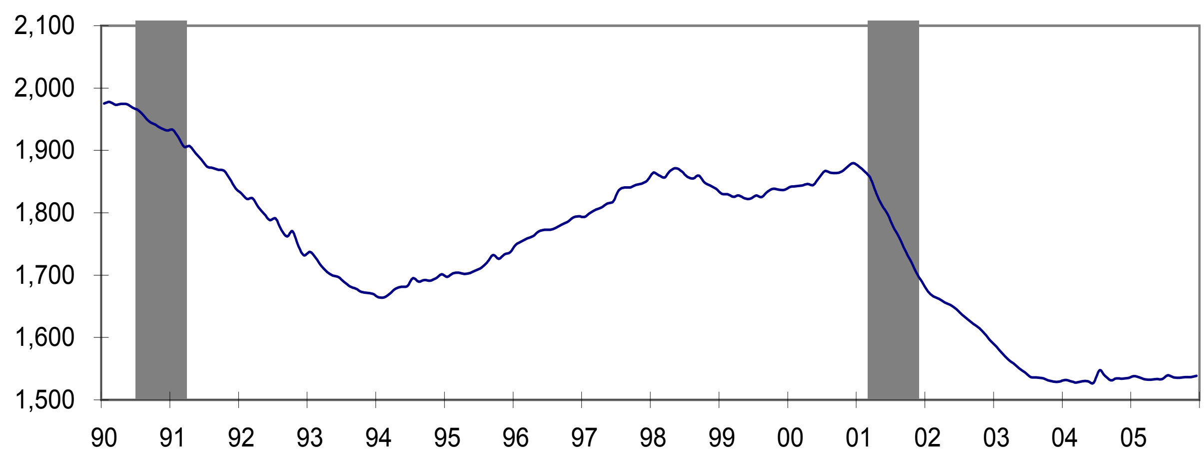
Nonagricultural Employment

(Thousands, Seasonally Adjusted)

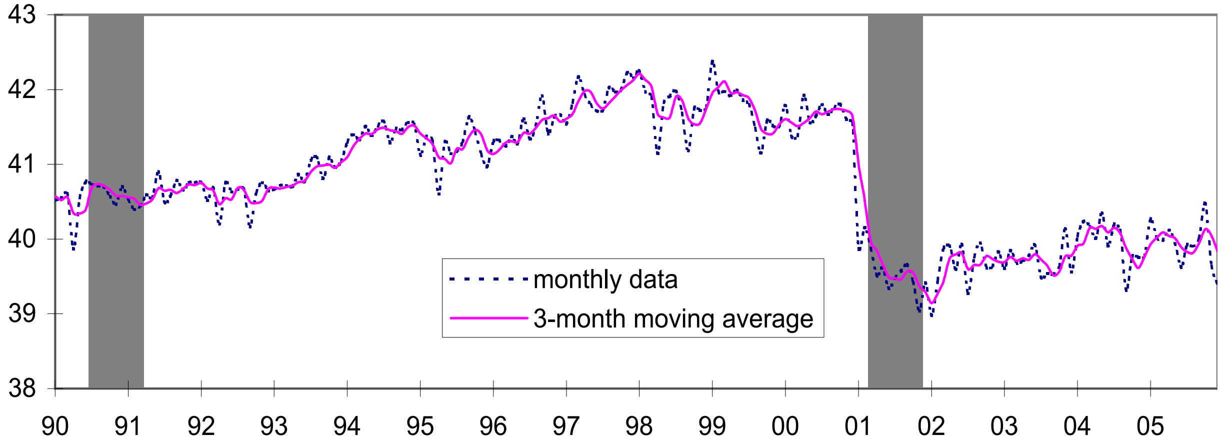


Manufacturing Employment

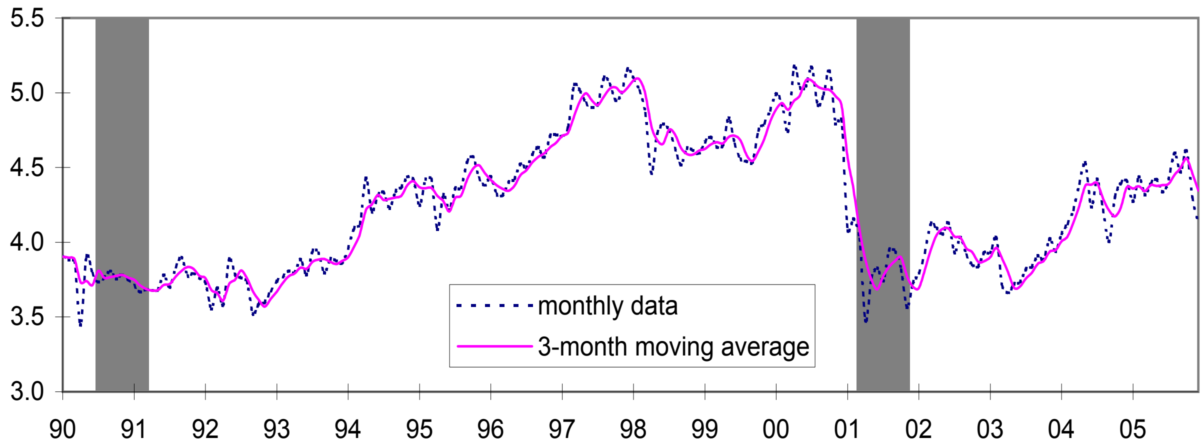
(Thousands, Seasonally Adjusted)



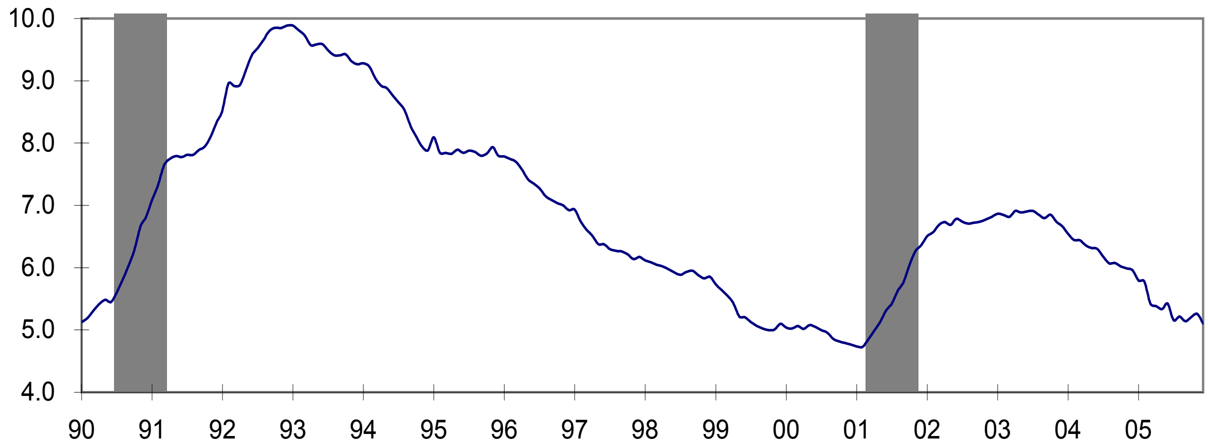
Average Weekly Hours, Manufacturing
(Seasonally Adjusted)



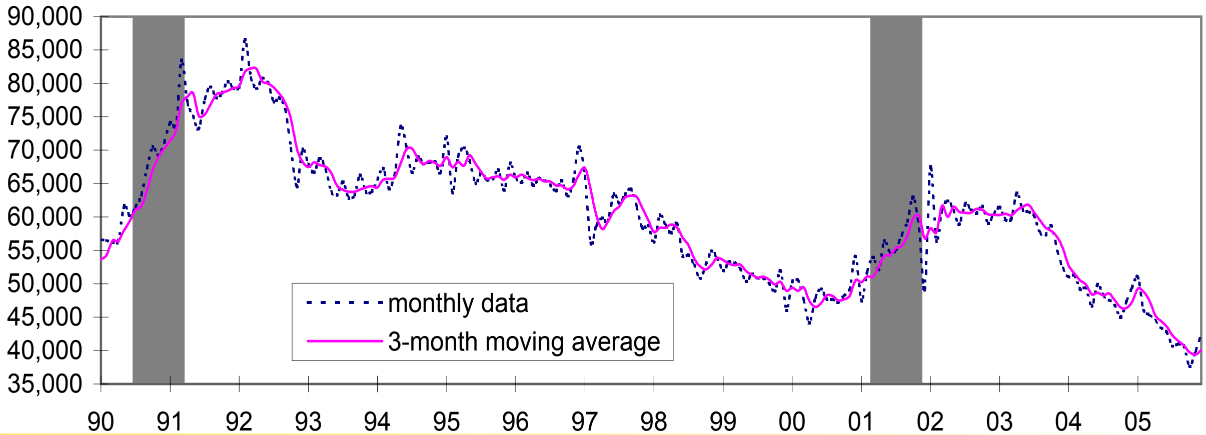
Average Overtime Hours, Manufacturing
(Seasonally Adjusted)



Unemployment Rate
(Percent)

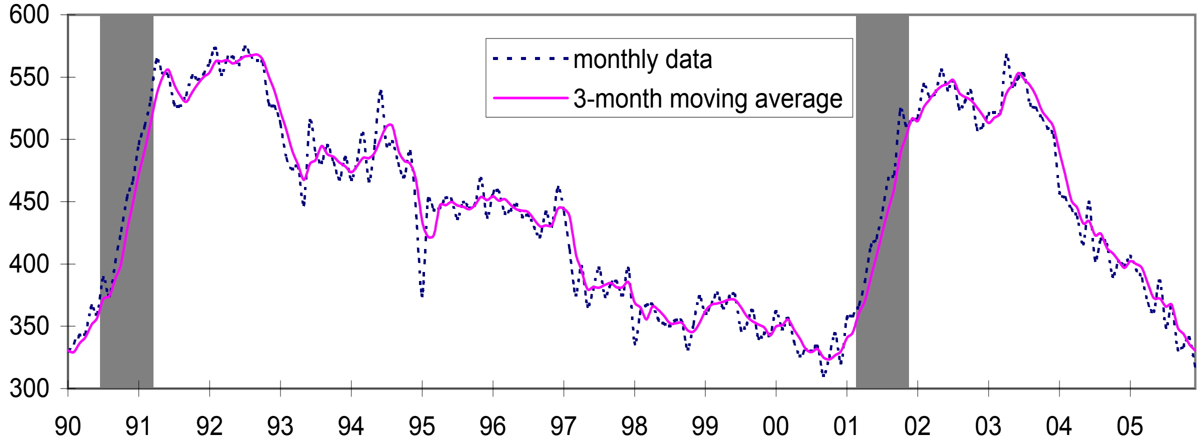


Initial & Transitional Claims for Unemployment Insurance
(Weekly Average, Seasonally Adjusted)



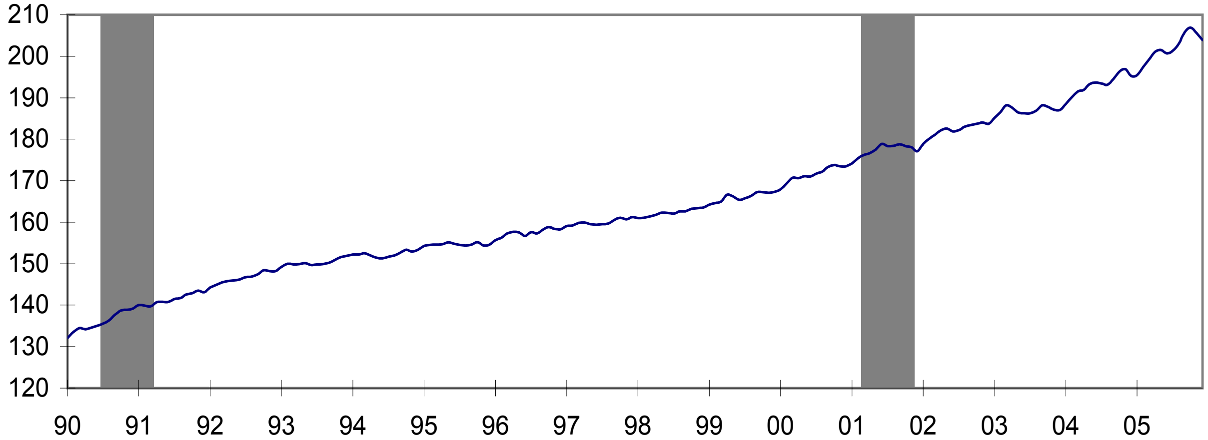
Unemployment, Average Weeks Claimed

(thousands, Seasonally Adjusted)



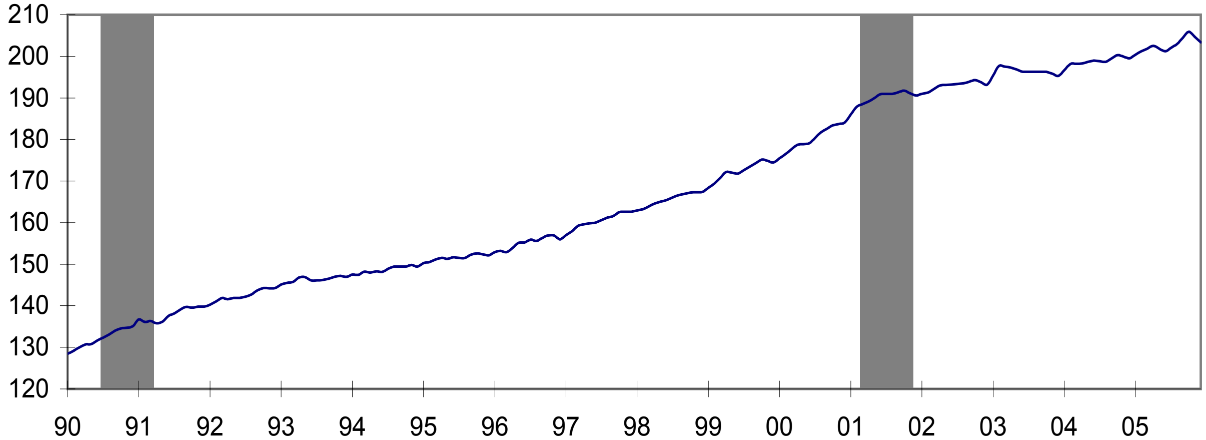
Consumer Price Index, Los Angeles

(1982–84=100)



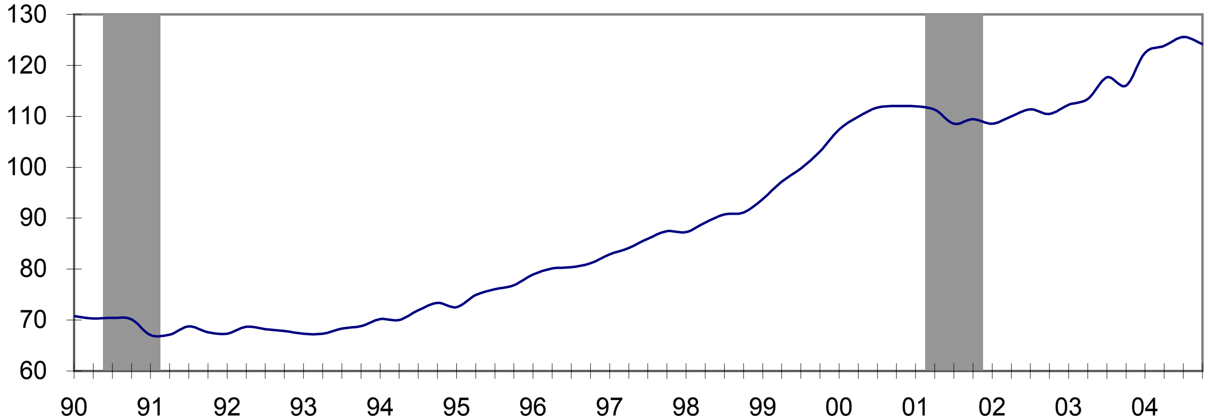
Consumer Price Index, San Francisco

(1982–84=100)



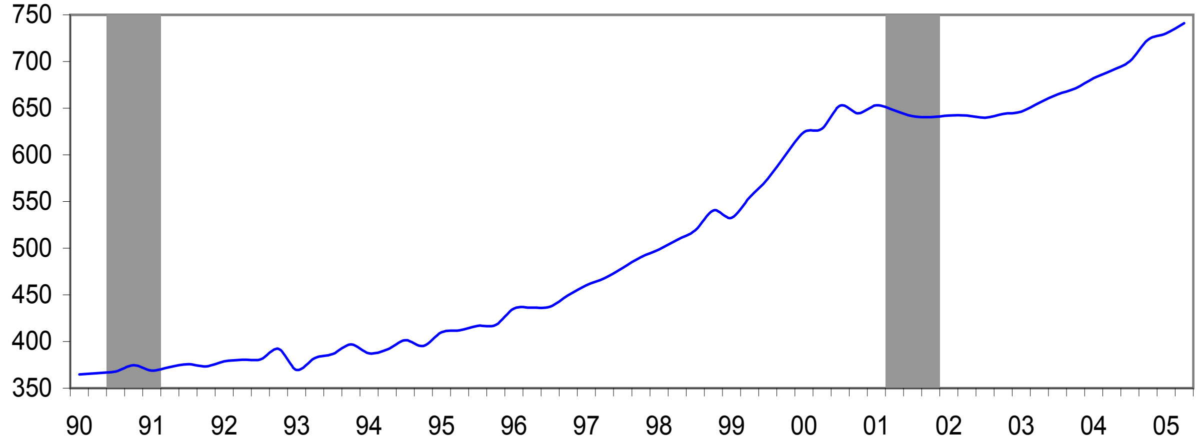
Taxable Sales

(Dollars in billions, Seasonally Adjusted)



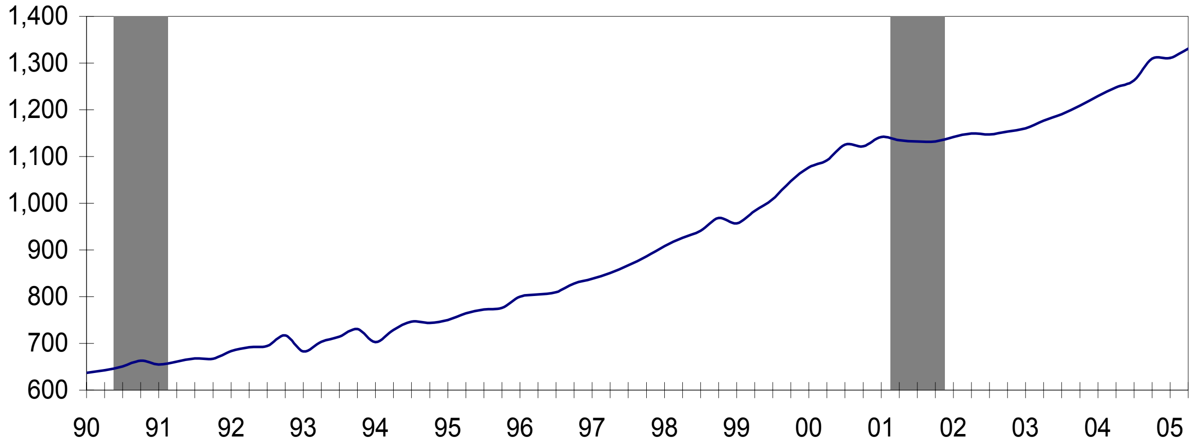
Wages and Salaries

(Dollars in billions, Seasonally Adjusted)



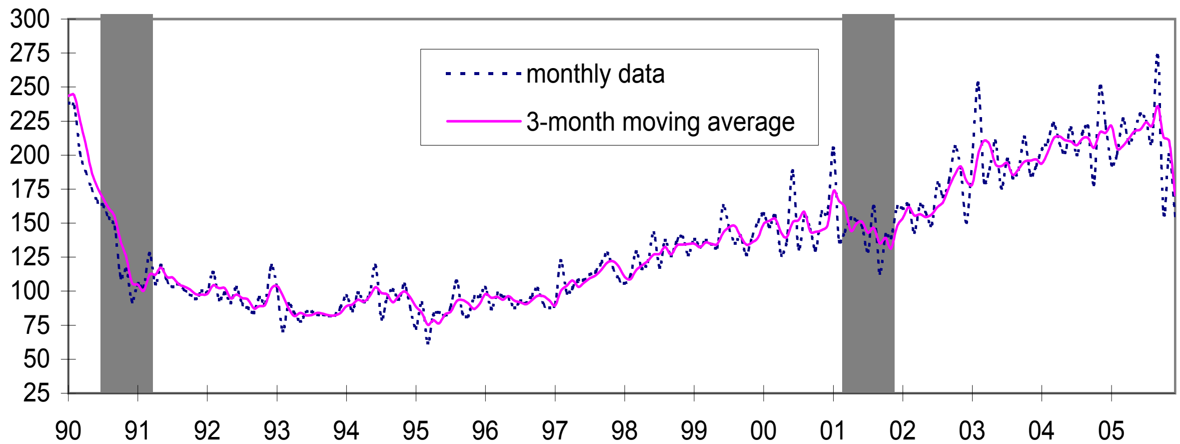
Personal Income

(Dollars in billions, Seasonally Adjusted)



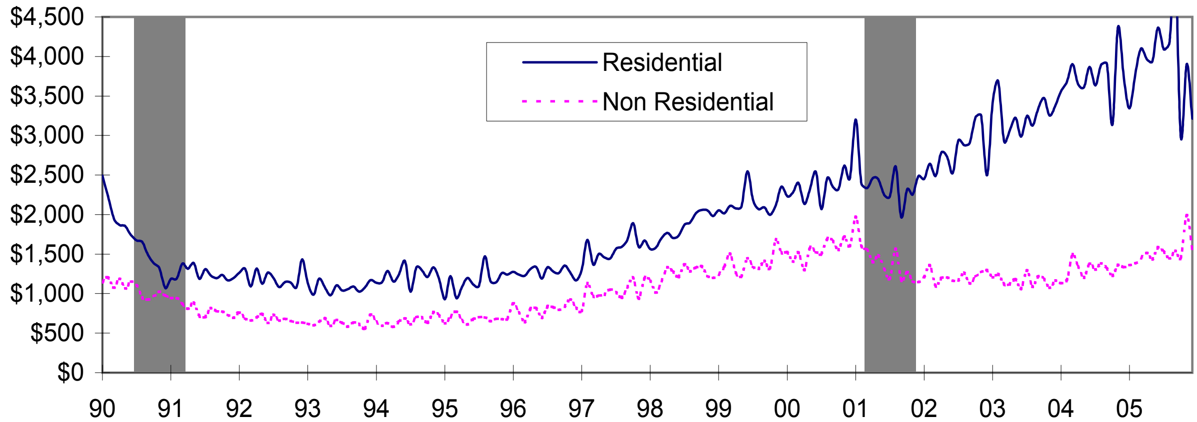
New Housing Units Authorized By Building Permits

(thousands, Seasonally Adjusted at Annual Rate)



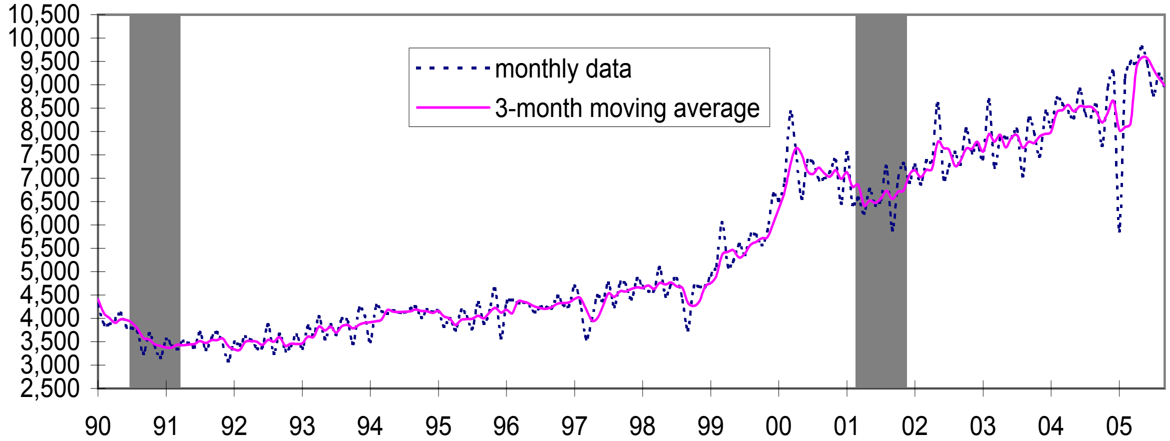
Residential & Nonresidential Building Permit Valuation

(Dollars in millions, Seasonally Adjusted)



New Business Incorporations

(Seasonally Adjusted)



CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included. A similar summary of events dating back to 1956 is available at the Department's internet home page at: www.dof.ca.gov

2002

July 15	Pfizer to buy Pharmacia.
July 16	The dollar sank against the euro for the first time in more than two years. Intel to eliminate 4,000 jobs.
July 21	WorldCom filed for bankruptcy protection.
July 22	The Dow Jones industrial average sank to its lowest level in nearly four years. Both the Nasdaq and S&P 500 are at their lowest levels since the first half of 1997.
July 30	President Bush signed into law the Public Company Accounting Reform and Investor Protection Act.
July 31	GDP growth slowed to 1.1 percent in Q2 from revised 5.0 percent in Q1. Last year's data was also revised indicating that the economy shrank in each of the first three quarters.
	Venture capital investments hit four-year low.
August 8	IMF signed an emergency loan to Brazil.
August 11	U.S. Airways filed for bankruptcy.
August 20	The U.S. trade deficit narrowed in June, following two straight record monthly deficits.
September 27 –October 9	Cargo operations at 29 West Coast ports ground to a halt when terminal operators locked out unionized workers.
November 6	Federal funds rate reduced from 1.75 percent to 1.25 percent.
	Discount rate reduced from 1.25 percent to 0.75 percent.
December 9	United Airlines filed for bankruptcy protection.
December 19	Standard & Poor's lowered California's bond rating to an A from an A+.

2003

February 10	Moody's lowered California's bond rating to A2 from A1.
February 14–17	A major snowstorm hit the Middle Atlantic and Eastern states.
February 26	Doctors in Hong Kong report the first case of a flu-type virus "Atypical Pneumonia" now more commonly known as Severe Acute Respiratory Syndrome (SARS).
March 20	Operation Iraqi Freedom begins.
April 9	Baghdad falls and Iraqis and American troops topple statue of Saddam Hussein.
April 14	President Bush declares conclusion of major combat operations in Iraq.
June 25	Federal funds rate reduced from 1.25 percent to 1 percent, the lowest rate in 45 years.
June 26	GDP up 1.4 percent in Q1.
July 17	The US recession ended in November 2001, according to NBER.
July 24	S&P lowered California's bond rating from "A" to "BBB".
July 25	United States Treasury begins mailing $400 per child tax rebate checks.
August 2	Governor Gray Davis signs the 2003-04 state budget bill.
August 4	Moody's lowered California's bond rating from A2 to A3.
August 28	GDP grew at a revised 3.1 percent annual rate in the 2nd quarter.
September 3	Light vehicle sales in the U.S. reach 19.0 million in August, the second best monthly rate ever.
October 21	Wildfires breakout in Southern California, eventually burning 743,000 acres and destroying over 3,500 homes.
October 30	GDP grew by 7.2 percent, its fastest rate since 1984.
December 4	President Bush ends steel tariffs.
December 12	Dow Jones Industrial average closed above 10,000 for the first time since May 24, 2002.
December 13	Saddam Hussein captured by American troops.
December 23	Final report shows GDP grew by 8.2 percent in the third quarter, its fastest rate since 1984.
December 24	U.S. confirms first case of "mad cow" disease.

2004

February 10	Unexpected cut in OPEC quota and cold weather contribute to higher oil prices.
February 11	Dow Jones Industrials closed at highest level in more than 2½ years.
March 25	Fourth quarter GDP rose 4.1 percent.
April 30	International oil prices hit a 3½ year high.
May 21	Moody's raised California's credit rating from "Baa1" to "A3".
May 27	First quarter GDP grew at a 4.4 percent annual rate.
June 30	Federal funds rate increased by 25 basis points bringing the rate up to 1.25 percent. It is over four years since the Fed last tightened rates.
August 9	Fitch removes California from Rating Watch Negative.
August 10	Federal funds rate raised from 1.25 percent to 1.50 percent.

August 24	S&P raised California's credit rating from "BBB" to "A".
August 27	Second quarter GDP grew at a 2.8 percent annual rate.
Mid-August	Hurricane Charley hits Florida
September	Three powerful hurricanes (Frances, Ivan, and Jeanne) hit Florida and some neighboring states.
September 21	Federal funds rate raised from 1.50 percent to 1.75 percent.
October 29	GDP grew at a 3.7 percent rate in the third quarter.
November 10	Federal funds rate raised from 1.75 percent to 2.00 percent.
December 14	Federal funds rate raised from 2.00 percent to 2.25 percent.
December 22	GDP grew at a 4.0 percent annual rate in the third quarter.
December 26	A magnitude 9.0 earthquake — the largest in 40 years — struck the northern Indonesian island of Sumatra, triggering a tsunami that killed tens of thousands of people in more than 11 countries.

2005

January 22-24	Blizzards blanketed large parts of the Northeast.
January 30	Iraq held its first free election in half a century.
February 2	Federal funds rate raised from 2.25 percent to 2.50 percent.
March 22	Federal funds rate raised from 2.50 to 2.75 percent.
March 30	GDP grew at an annual rate of 3.8 percent in the fourth quarter of 2004.
April 28	GDP increased at an annual rate of 3.1 percent in the first quarter of 2005.
May 3	Federal funds rate raised from 2.75 to 3.00 percent
June 29	GDP increased at an upwardly revised 3.8 percent in the first quarter of 2005.
June 30	Federal funds rate raised from 3.00 percent to 3.25 percent.
July 11	Governor Arnold Schwarzenegger signs the 2005-06 state budget bill. Moody's Investor Services and Fitch Ratings upgraded the state's bond ratings.
August 9	Federal funds rate raised from 3.25 percent to 3.50 percent.
August 29	Hurricane Katrina ripped through Louisiana, Mississippi and Alabama causing billions of dollars in damage.
August 31	GDP increased at an annual rate of 3.8 percent in the first quarter and 3.3 percent in the second quarter of 2005.
September 20	Federal funds rate raised from 3.50 percent to 3.75 percent.
October 14	Overall consumer prices rose at the fastest pace in more than 25 years last month.
October 17	The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 goes into effect.
October 24	Hurricane Wilma battered Florida.
November 1	Federal funds rate raised from 3.75 percent to 4.00 percent.
December 13	Federal funds rate raised from 4.00 percent to 4.25 percent.
December 15	CPI posts biggest drop since 1949.
December 21	GDP increased at an annual rate of 4.1 percent in the third quarter of 2005 In the second quarter, GDP increased 3.3 percent.